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the COOPERATIVE APPROACH to CRAFTS

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FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE

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FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE

Farmer Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Service publishes research and educational materials and issues *News for Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis.

Program Aid No 1001
(Formerly FCS Information No. 78)
February 1972

Preface

This publication provides guidelines for those interested in organizing craft cooperatives. It also includes important steps a group must take to develop a successful cooperative enterprise.

Cooperatives have long been the organizational device for helping people meet problems beyond their individual capabilities.

While the cooperative approach alone does not assure success of any enterprise, it does provide a vehicle for people to bring together the resources needed to overcome many problems. The planning that precedes forming a cooperative also enables the organizers to get a more realistic view of their proposed project.

Traditionally, crafts have been produced in the home—at first for use by the immediate family and more recently for supplemental income. In recent years,

crafts produced for sale have increased markedly.

With the increased quantity of crafts for sale on the market, many producers have found it hard to market their products individually. Thus, many have turned to cooperatives.

Farmer Cooperative Service has other publications that may be useful to persons interested in applying the cooperative approach to craft enterprises. These are listed on the back of this publication.

The author appreciates the suggestions of Francis P. Yager, Farmer Cooperative Service, U.S. Department of Agriculture; Mrs. Beryle Stanton, formerly with Office of Management Services, U.S. Department of Agriculture; members of the Federal Interagency Craft Committee; and the staff of The Commission on Religion in Appalachia, Inc.

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The Cooperative Approach to Crafts

by William R. Seymour
Farmer Cooperative Service

More and more rural people have turned to craft programs as one tool for economic development. This approach has much merit because of the abundance of physical and human resources frequently available, often backed up by a cultural heritage in crafts.

This publication is prepared in response to numerous requests by new and existing craft cooperatives for guidance in establishing and operating such cooperatives.

No definite figures are available on the number of craft producers or cooperatives in the United States. Farmer Cooperative Service has, however, recorded over 70 craft groups serving over 5,000 craft producers in the Appalachian Region. It has assisted these and several groups elsewhere in the United States—the latter stretching from the northern part of Maine to New Mexico and up to the outer islands of Alaska.

The Office of Economic Opportunity has funded and given technical assistance to over 40 handcraft cooperatives at the latest count. Thus, interest seems to be widespread.

Most craft cooperatives formed during the past few

years have been supported by Government financing. A few are now showing signs of potential for becoming economically self-sufficient. Most, however, still need additional operating and technical assistance.

Experience of those working in craft development shows a growing market for crafts in our society. Many practicing craftsmen have no trouble earning a living from the sale of their crafts.

The following statement comes from an instructor and craftsman: "People are grabbing up anything that people have touched. They seem anxious to buy anything that was made with human hands. Craftsmen every day find out that they can make enough to buy groceries and have a comfortable life."

Yet, many craft producers have not been able to achieve their expected income projections because of lack of training, poor quality control, poor design, the absence of a good market, and/or poor business practices.

Many have turned for help to the cooperative form of organization. Though most rural people are familiar with the cooperative approach, developing and operating their own craft enterprises is a new and unfamiliar undertaking to most. Whatever the nature of the craft enterprises, they must be handled in an efficient, business-like manner for economic success.

How Craft Cooperatives Operate

The principles that distinguish cooperatives from other types of businesses, the services that craft cooperatives perform, and members role in cooperative management are now discussed.

Three Co-op Principles

The same principles and practices apply to craft cooperatives that apply to other types of cooperatives. Cooperatives have long been used in rural areas to market farm products, obtain supplies, and provide many services such as electricity, credit, insurance, and irrigation.

Three fundamental principles distinguish cooperatives from other types of businesses:

... *Service at cost* is basic. This means that the cooperative does not make money for itself. Net margins above the cost of providing services belong to members of the cooperative in proportion to their patronage, resource contribution, labor, or according to some other predetermined basis for allocation.

... *Democratic control* means the association is controlled on some basis other than the amount of capital contributed. Generally, this basis for control is one member-one vote.

... *Limited return on equity capital* means that the return on capital invested in the cooperative is not the principal benefit sought by members as is the case with stockholders in a non-cooperative corporation.

Three Types of Service

Craft cooperatives can be classified according to the services they perform: Marketing, supply, and technical assistance.

Though most craft cooperatives start out primarily as marketing cooperatives, they usually expand into selling craft supplies and acquiring or supplying technical assistance to their members.

... *Marketing*—Once a craft is produced, a decision must be made how it is to be marketed. There are two basic kinds of sales:

1. Wholesale—crafts are sold to a large volume jobber, gift shops, specialty shops, interior decorators, national and State park stores, or to another cooperative that in turn sells to the consumer.
2. Retail—crafts are sold directly to the consumer by various ways. Some are: Mail order (catalog), roadside stores, exhibits and fairs, or home showrooms.

In the past, the great bulk of crafts have been sold to tourists by individuals personally or through local outlets such as roadside stands, stores, exhibits, and fairs. To a certain extent, this has been because tourists were the only market available to the producer.

With the expanding supply of crafts and retail outlets, the individual producer has found it more difficult to make sales. A marketing cooperative is important because of its potential to develop a broad geographic market for the producer as well as to attract buyers by offering a variety of crafts in sufficient quantities.

Often members sign a marketing or membership agreement in which they contract to market a portion or all of their crafts through their cooperative. The cooperative then contracts to receive and market all of the products specified in the agreement.

For many the wholesale market holds the greatest hope for continuing expansion of sales. This market is looking for larger quantities of quality products than the individual producer can supply. In some instances

larger quantities are needed than one association can supply. Thus, several associations are combining efforts to meet this demand.

A marketing approach should be determined before a cooperative is formally set up.

Supply—Craft producers characteristically have sold their output at wholesale prices while paying retail prices for many of their supplies. Because they purchase relatively small amounts, they often must pay extra for products such as paint, yarn, fabric, and tools. Also the quality of raw materials is not always consistent from purchase to purchase.

To overcome these problems, many craft producers turn to cooperatives, especially those living in isolated areas.

Major objectives of a supply craft cooperative are: (1) To save costs for member-patrons through quantity purchasing, and (2) to procure the type and quality of craft supplies best suited for members' needs.

Technical Assistance—Supplying technical assistance to members is not unique to craft cooperatives, but is more needed than in other type business ventures. Because crafts are handmade and an individual expression, initial and continuous training along with design flexibility is often needed.

The individual craft producer has found it hard to get training and new design aid to meet the changing market. Many craft producers have thus organized into cooperatives to get training, quality control, and design help they have been unable to acquire individually.

The marketing potential of the cooperative cannot be developed to its fullest unless the producer is properly trained and uses raw materials that will yield a uniform quality product.

The producer is not able to meet his obligation to supply the cooperative with crafts if the needed materials are not available and he has not received proper instructions on what the market wants.

Thus, it is clear that all three functions—marketing, supplies, and technical assistance—must be planned and coordinated if the cooperative is to serve its markets properly and gain the maximum economic return for its member-patrons.

Member Control

The management of a cooperative is a team approach made up of three parts: Members, board of directors, and hired management.

Members of a cooperative have a role in management that differ from stockholders in other type business corporations. This is because they own and control the cooperative.

Members should be aware of the affairs of their cooperative and play a positive role in its management. Experience has shown that often members do not automatically assume their responsibilities. Boards of directors and hired management are responsible for helping members understand their management role. They must find ways and furnish opportunities for members to express what they need from their cooperative.

A cooperative is a democratically controlled form of business. However, members cannot make all decisions directly. In carrying out democratic control, members elect directors to represent them in many affairs of management. This right should not be taken lightly.

Generally, directors direct and supervise the operation of the cooperative in two ways.

One is by handling their duties directly as a board. Here they discuss, make decisions, set policies, and give instructions as a unit.

The other way is to delegate duties to executives of the cooperative—usually the manager—to carry on the

day-to-day operations of the cooperative.

The board also has other responsibilities. It functions as trustee, determines general policies, preserves cooperative character, sets requirements for accounts and records, controls the total operation, and distributes corporate earnings. But the most important responsibility is to employ a competent manager. These areas are

discussed later in the section on Managing starting on page 9.

More details on responsibilities of members, board of directors, and hired manager duties appear in General Report 120, *Improving Management of Farmer Cooperatives*, a publication of Farmer Cooperative Service, USDA.

Why and How Craft Cooperatives Succeed

While the cooperative approach does not assure success of any enterprise, it does provide a vehicle through which people can bring together the resources needed to overcome many problems.

For a craft cooperative to succeed, it must not only bring advantages to its members, but must operate in accordance with good business practices.

Specific Advantages

Craftsmen find that working through a cooperative brings them specific advantages. These are:

1. *Marketing Assistance*—A cooperative usually hires a manager to take over the task of marketing products for the group. He is generally chosen because of business experience and training. He should know markets and what will sell. He is responsible for keeping records, making deliveries, and handling shipping.

The fact that he can devote full time to developing the craft business is a distinct advantage to the business. This then allows craftsmen to devote their efforts to production.

Craftsmen may sell their work to the cooperative under contract or consignment. The cooperative then finds markets. For example, cooperatives often contract

with gift shops and other outlets when their members can produce in sufficient quantity to make this feasible.

The cooperative can help the producer determine a fair market price for his products. In some cases this means getting a higher price per unit while in other cases it means helping him place a sales price on his products that will not price a craft out of the market.

An experienced cooperative manager and pricing committee thus can insure a more profitable and stabilized market for member-producers.

Many large wholesale buyers, for reason of quantity and quality control, will not deal with an individual, but only with a consolidated supplier.

A cooperative can assemble a number of items and thus attract buyers who need larger quantities to carry in stock. For example, the manager of a North Carolina craft cooperative in 1970 negotiated a contract with a large thread manufacturer under which craftsmen make hand crafted sample items to be used in store displays of the company's products. This contract is expected to bring many thousands of dollars a year into the co-op. Craftsmen working on this project are being paid an hourly wage.

2. *Lower Costs for Supplies*—A cooperative, through group purchasing, can get raw materials for member-patrons at a lower price than by purchasing individually.

A cooperative can purchase fabric, thread, and dacron or cotton filling for its quilters in quantity lots, as one example.

Members can also be assured of a constant supply of quality raw materials to work with. These services also save the craftsmen time and travel.

3. *Technical Assistance*—Training programs with skilled craftsmen as instructors help people improve and develop their products and learn what is marketable. Effective training programs are essential to the success of a craft cooperative.

Some of these programs have been set up with State or Federal assistance. In most cases, programs are not authorized to sponsor training for individual craft producers who are not assured a sustained market. The cooperative approach can fill this need.

It is not just enough to give initial training. The producing craftsmen must have assistance on a continuing basis.

As most craftsmen develop their skills in certain areas, problems develop in other areas of production and marketing. Such problems may occur in proper equipment selection, material selection, product design, and management.

Membership in a cooperative is more attractive if that organization provides technical assistance to members on a follow-up basis.

Many craftsmen in a Tennessee cooperative have been trained in a State-sponsored program. This cooperative now has more than 75 members and many of them depend on crafts for their total cash income.

4. *Quality Control*—A cooperative can establish quality controls and standards that create buyer confidence and promote markets. Many craft cooperatives have standards committees that determine if a member's product is acceptable. If an item is rejected, the craftsman is told why and an effort made to help bring

quality up to standards.

Craftsmen are encouraged to participate in crafts exhibits and demonstrations as this brings them face-to-face with buyers. Hearing comments from "outsiders" favorable or unfavorable gives craftsmen a better understanding of what is marketable and of the quality the public demands.

5. *More Efficient Business Operation*—A group can often get better financing than an individual craft producer. Often a cooperative can get loans or grants that would not be available to individuals. A \$50,000 Farmers Home Administration Economic Opportunity loan helped a Kentucky cooperative build a crafts sales building, for example.

Also, a cooperative can provide clerical service and the overall business management that craftsmen need. One employee can keep the records of supplies purchased and resold to members and of sales of members' products, maintain bank books, carry on necessary correspondence, and do general office duties.

6. *New Products and Designs*—A cooperative manager knowledgeable in the crafts field can help members develop new products and designs.

Usually members of a cooperative will make a few samples of a new product to see how the market responds. Sometimes a change in design will improve saleability.

For example, a Tennessee woodcarver, confined to a wheelchair, was getting a meager return for his work. With help and guidance from his cooperative he is now earning an adequate living for his family.

7. *Joint Purchase and Use of Equipment*—Certain equipment, such as some woodworking machinery, may be too expensive for individuals to buy. However, the cooperative can buy equipment for members to share, thus keeping both operating costs and initial investments low.

Cooperatives often can set up centrally located workshops where members can use co-op-owned equipment.

Guidelines for Good Operations

Like the individual proprietorship, partnership, or corporation, a cooperative must operate on a business-like basis if it is to succeed. This is a primary requirement. The cooperative approach to crafts does not automatically solve all problems or guarantee success. Competent management is the first requirement for good business operations.

Second, the human factor must be considered when an association is formed. The people joining together should have similar personal attitudes, and, most important, use a vigorous approach to their common goal.

Third, the organizational structure of a cooperative creates problems not encountered in individual operations. How economic benefits are to be distributed to members, how new members can join the cooperative, method and kind of management, and ways of terminating membership must all be spelled out before the cooperative is formed.

Fourth, a craft enterprise must be sure to locate proper markets and insure that members can produce crafts in the quality, quantity, and design that buyers demand.

How to Form a Craft Cooperative

It takes only a few craft producers to spark the forming of a cooperative. Usually these producers are friends who have a common problem. If they think that group action can solve their mutual problems, then they may try to get others with similar interest involved.

At this point, they usually call on someone who is familiar with the cooperative-forming process to work with them in planning the cooperative, setting it up, and financing and managing it.

Planning

A cooperative should be organized with considerable care to develop and operate a craft enterprise. A committee should be appointed by the potential members to explore possibilities and prepare reports for consideration of those interested in forming the cooperative.

Details for doing this are contained in Educational Circular 18, *How to Start a Cooperative*, published by Farmer Cooperative Service, USDA.

The first steps of the committee are to determine economic feasibility and objectives of the proposed cooperative.

Economic Feasibility—As a business enterprise, a cooperative is affected by the same economic forces and management practices that bring success or failure to other types of businesses. Some cooperatives fail because members do not understand this.

Before a craft cooperative is organized, someone—usually a committee composed of potential members—must determine if there is a need for the co-op's services. Volume of potential business must be adequate to support the organization. Adequate capital must be available to support the operations.

It may be useful to have a committee examine the present craft production in the area, estimate the

potential production and what training and other technical assistance is needed—and then prepare a report for all those interested in forming or funding the cooperative.

One way of determining the need for a craft cooperative and its chances for success as a business enterprise is to develop a questionnaire and ask the potential members what they think and what they are now doing. A sample craft survey is given in Appendix A.

After the survey is taken and the committee has analyzed the information, the following must be determined:

1. Are enough craftsmen already producing marketable crafts to justify an association? What level of skill are the craftsmen? If the survey does not indicate a nucleus of skilled people, it is better not to start a cooperative.

2. Are enough local people willing to join and support the enterprise?

3. Are there people in the area who can assist in training and give other technical assistance?

4. Are there people in the area who have management skills? Are they willing to help?

5. Can the local group furnish any part of the required capital?

If the membership questionnaire indicates a need for a marketing cooperative, and producing craftsmen are in the area, then a projected sales and expense statement for the craft association should be constructed. A sample of this statement is given in Appendix B.

In constructing the sales and expense statement, several questions will have to be answered. Some of these are:

1. Is there enough tourist and local business to support a retail shop? What other markets are there?

2. What portion of the craft production must be sold wholesale?

3. Is there an existing facility that can be leased for the outlet? Or will a facility have to be constructed? Will these facilities attract the tourist business? Are they adequate for wholesale distribution?

4. Is there a person competent to run the cooperative? Where can one be found or trained? At what salary?

5. How much inventory will be needed? What is the estimated annual stock turnover?

6. How much additional training will be needed by members?

7. How much initial operating and technical assistance capital will be needed to run the business? Where will it come from?

8. How long will it take to make the cooperative self-sustaining? 2 years—5 years?

Though many of these questions will be hard to answer, it will be necessary to have some general answers so sound decisions can be made and so potential members will not be misled.

If the area does not lend itself to a retail outlet, the committee should then determine what wholesale buyers now operating both within the area and elsewhere would be interested. It should also determine the potential in selling to them, and what facilities and personnel will be needed to operate a wholesale operation.

.. Co-op's Objectives—If the committee determines that the potential cooperative would have a nucleus of qualified craft producers and markets can be found, then the objectives for the new association must be spelled out. These should include:

1. What services will be provided—marketing, supplies, technical assistance, or a combination?

2. Who will be eligible to use these services—area to be covered, potential members?
3. What type of production facilities and equipment will be needed—in central workshop, home workshops, government facilities, or a combination?
4. How will products be marketed—on consignment, purchased from producers at time of delivery?
5. What margins will the cooperative charge—on wholesale sales, on retail sales, on consignment sales?

For example, if the object is to provide members with a marketing outlet with no auxiliary services, the members must be highly skilled and proficient producers.

If the members have only limited experience, technical assistance must be incorporated into the formation plan. If members have limited equipment and raw materials, then provisions must be made for this.

Experience has shown that for a handcraft business to develop to its fullest economic potential, production can often be done in cooperative shops where more equipment is available than individual homes, at least in the initial training period. This is because many craft producers are not skilled enough to meet quantity and quality demands of the market. The craft shop approach enables the cooperative to supply supervision to assist members in gaining maximum potential.

Organizing

After it has been determined that a handcraft cooperative is feasible and the prospective members decide to organize, the next step should be to retain a lawyer. He will advise the group on the legal procedure for setting up a cooperative.

Details on organizing can be obtained from Educational Circular 18, *How to Start a Cooperative*, and FCS Information 66, *Sample Legal Documents—Legal Phases*

of Farmer Cooperatives, published by Farmer Cooperative Service, USDA.

... *Incorporation*—A corporation has authority to conduct business in its own name. Incorporation is the act by which the corporation is brought into being. Generally speaking, incorporation limits the liability of each member to the amount of capital he has agreed to supply.

Each State has one or more statutes under which corporations can be incorporated. Some have specific laws for non-agricultural cooperatives that the craft cooperative can incorporate under. In some cases, it may be more feasible to incorporate under the regular incorporation laws of the State and set up bylaws so as to operate as a cooperative.

Other groups may elect to incorporate in the District of Columbia under Public Law No. 642-76th Congress, Chapter 397-30, Session S. 2013, and then incorporate in their State as an out-of-State corporation.

These laws specify the type of information that must be included in the articles of incorporation and designate the official with whom the articles must be filed.

... *Adoption of Bylaws*—After articles of incorporation are filed, it usually is in order for Charter Members to hold a meeting to adopt bylaws and elect directors. (See Appendix C, *Sample Bylaws of Craft Cooperative*.) Other examples of bylaws can be found in FCS Information 66, *Sample Legal Documents—Legal Phases of Farmer Cooperatives*.

The bylaws include discussions of membership rights and responsibilities of members, methods of calling and conducting meetings, voting rights and quorum, duties and qualifications of directors and officers, bonding requirements, date of association's fiscal year, determination and distribution of proceeds, and miscellaneous provisions.

... *First Meeting of Board*—The board of directors must be elected by the members and should hold a meeting immediately after adoption of the bylaws.

Among business matters to be acted upon at this meeting are:

1. Election of officers as specified in the bylaws.
2. Authorization of president and secretary to have copies of the articles of incorporation and bylaws printed and distributed to members.
3. Selection of a depository bank; designation of officer or employees authorized to handle funds and issue checks; arrangements for bonding officers and employees in accordance with the bylaws; arrangement for bookkeeping and auditing; and transaction of any other business relating to such matters as insurance, financing, and the employment of a manager.

Farmer Cooperative Service has several publications written especially to help directors recognize and fulfill their responsibilities. Some of these are listed on the back cover of this publication and specific references are noted within the text.

Financing

The amount of capital a craft cooperative will need depends upon the size and type of its operation.

When the cooperative does not own and operate physical facilities but provides only a service such as advertising, promotion, accounting, or supply buying, operating funds usually can be provided by membership fees, dues, or assessments.

But more commonly, a handcraft cooperative will need to supply more services than this. Then additional sources of capital will be needed. If a training program is to be incorporated, grant money and aid will be needed.

Some cooperatives raise money by selling capital stock to members. In most cases, little of this stock ever goes to buyers outside the cooperative because investment in a cooperative does not offer the speculative growth possibilities found in some other types of

investments. There have been instances, however, of non-members purchasing preferred stock or making investments for the community interest.

Most craft cooperatives, in recent years, have been financed through Federal programs. A good source for finding out what help is available is the Catalog of Federal Domestic Assistance compiled for the Executive Office of the President by the Office of Economic Opportunity. Copies of this publication can be found in most local Federal offices.

Other sources of financial assistance are churches and private foundations. Local banks can and have made loans to craft groups that have proven economic stability and feasibility.

Managing

A cooperative, like any other type of business, must have competent management if it is to succeed. Someone must plan and direct the cooperative's activities; hire, train, and supervise employees; and handle day-to-day operations.

The degree of skill with which this is done will, in a large part, determine the success or failure of the cooperative.

As stated earlier, management of a cooperative is not a one-man responsibility. Members, directors, and hired personnel all have important roles. The responsibility of each group is specific and must not overlap.

Members—The first steps in providing for management are taken by members when they adopt bylaws and elect directors. Members of a cooperative have definite responsibilities to do business with it, invest in it, and support it in every way. It is important that they be informed about their cooperative.

Directors—The directors act as trustees for members. They establish policies and long-range objectives; decide on programs and courses of action; and, at least

in a general way, direct and guide the activities of the cooperative. They approve budgets, review reports, and require outside audits.

The most urgent role directors play in management—and one of the most important—is hiring the manager.

..Hired Management—The manager chosen by the directors is responsible for selecting his staff and organizing activities in a manner that will produce the results desired by the members and directors. The manager is responsible to the directors for the work effectiveness.

The manager selected to direct the operations of a craft cooperative should have some technical knowledge about the particular type of activities involved.

But that in itself is not enough. He also must be able to select, train, supervise, and direct employees. He should be equally adept at working with the board of directors in developing plans and programs that will carry out the policies and objectives of the cooperative.

The manager is a key employee and the success of the cooperative will depend to a large extent upon his ability. He should be selected with great care.

Keeping Records

It is important for all businesses to keep good records. This is especially true of cooperatives since members must be fully informed of how their business is done. Hired management keeps most of the records, but the board of directors must insure that these records are accurate and meet the needs of the board and members. Some of the records needed are:

. Budget—The budget is basically a profit and loss statement planned in advance by the manager for board approval. Its primary value is helping the co-op management plan sales and inventories and control expenses and profits for the coming year.

. Cash Records—Accurate records and procedures are essential to good cooperative operations. A manager needs records that give him full and ready information on various aspects of the firm's financial condition. As a minimum, records should furnish answers to these questions:

1. How much cash was received and from whom? How much was spent and for what? How much cash is on hand and in the bank?

2. To whom has credit been granted? How much? What payments have been received and for which account? Which accounts are delinquent? Do these accounts violate credit policies?

3. What is the inventory? This should be kept by units and dollars for each item. What has been added? What has been removed? How much is in stock?

4. What are the fixed assets? What are the accounts payable? What are the capital or investments?

Answering these questions successfully is essential to good cooperative management. The job of keeping good financial records is vital. It is wise to get a local accounting firm to assist the bookkeeper in setting up records.

Then at least once a year an accredited accountant should do an audit. He then will prepare the financial statements the board needs and which are needed for tax purposes. Additional information on keeping records can be obtained from Farmer Cooperative Service.

Taxes

Craft cooperatives are subject to the complete range of taxes that other businesses have to pay. Every business pays income taxes on that part of its net earnings paid out as dividends on shares. Every business pays income taxes on what it adds to its surplus reserve. No business pays income taxes on refunds to its patrons. Thus a cooperative must distribute earnings to member-patrons or pay income taxes on them. For more

information see Internal Revenue Code of 1954, sections 1382(b) and 1388(a).

Good payroll records must be kept in order to collect and pay social security taxes, both the employees' and the cooperative's share. The cooperative must send monthly payments to the Federal Government for employees' withholding taxes that are collected along

with the cooperative's share of social security taxes if the combined amount is \$100 or more.

Sales taxes collected from customers must be paid at least on quarterly basis or more frequently, depending on the State law.

The cooperative is also subject to State and Federal unemployment taxes.

Available Assistance

If you are interested in organizing a craft cooperative, talk to your County Extension Agent. He can answer many questions and refer you to others who may be able to provide assistance.

Federal Government Agencies that may be able to assist are:

The Office of Economic Opportunity
Office of Technical Assistance
Washington, D.C. 20506

Economic Development Administration
Department of Commerce
Washington, D.C. 20230

National Collection of Fine Arts, Renwick Gallery;
American Folklife Festival, Division of Performing
Arts; and Museum of History and Technology,
Cultural History Division
Smithsonian Institution
Washington, D.C. 20560

Bureau of Indian Affairs,
Indian Arts Crafts Board, and
National Park Service
U.S. Department of the Interior
Washington, D.C. 20242

Federal Inter-Agency Craft Committee
National Endowment for the Arts
Washington, D.C. 20506

Farmer Cooperative Service
U.S. Department of Agriculture
Washington, D.C. 20250

Many States have craft guilds, craft associations, or State agencies set up to assist local groups. Also managers of other cooperatives can provide assistance.

Nationally, agencies that may be able to assist are:

American Crafts Council
29 W 53rd Street
New York, New York 10019

Associated Councils of the Arts
1564 Broadway
New York, New York 10036

American Federation of Arts
41 East 65th Street
New York, New York 10021

CRAFTS--THE HUMAN TOUCH





On a regional basis, agencies that may be able to assist are:

Appalachian Regional Commission
1666 Connecticut Avenue, N. W.
Washington, D.C. 20251

Southern Highland Handicraft Guild
P. O. Box 9145, 15 Reddick Road
Asheville, N.C. 28805

The Commission on Religion in Appalachia, Inc.
864 Weisgarber Road
Knoxville, Tennessee 37919

The following publications—in addition to those of Farmer Cooperative Service—may be of help:

Handicrafts and Home Businesses, Reprint March 1970, No. 1, Small Business Administration, Washington, D.C. 20416.
No charge.

Selling by Mail Order, Reprint December 1969, No. 3, Small Business Administration, Washington, D.C.
No charge.

A Handbook and Resource Guide for New Craft Groups, July 1970, The Commission on Religion in Appalachia, Inc., 864 Weisgarber Road, Knoxville, Tennessee 37919

Appendix A

Sample Craft Survey

Confidential Information

Interviewer's Name _____ Date _____

Craftsman's Name _____ Telephone No. _____

Address _____ County _____

1. A. What materials do you work with: Wood, ceramics, leather, etc.?

B. What craft items do you produce? _____

2. What item(s) do you produce best?

3. How long have you been producing this item(s)? _____

4. Have you ever sold any of your crafts? _____

A. (1) If yes approximately how much money did you receive last year? (Dollars) _____

(2) If no, would you like to sell your products?

B. What price did you receive for each item?

<i>Item</i>	<i>Price per item Dollars</i>
_____	_____
_____	_____
_____	_____
_____	_____

C. What portion of the sales price did you spend for materials?_____

5. Would you sell your products through a craft marketing association in your area?_____. Would you buy your materials through such an association?

6. How much time do you devote to your craft work at present?_____per week_____per year.

7. How many of each item could you produce in a thirty (30) day period?

<i>Item</i>	<i>No. of Items</i>
_____	_____
_____	_____
_____	_____
_____	_____

8. Have you been trained in your craft work or how did you learn it? (Specify)_____

9. Would you like to have additional training?_____
If yes, how much time could you devote?_____

10. Remarks of Interviewer:

A. Quality of product(s): _____

B. Item(s) sales potential: _____

C. Producer's dependability: _____

D. Physical ability: _____

E. Other remarks: _____

Appendix B — Sample Projected Sales and Expenses

Table 1.— Projected sales, cost of sales, other income and gross income for craft cooperative

Item	Example	FIRST YEAR		SECOND YEAR		THIRD YEAR	
		Your projection	Actual	Your projection	Actual	Your projection	Actual
	<i>Dollars</i>						
<i>Sales:</i>							
Retail	\$20,000						
Wholesale	<u>10,000</u>						
Total	\$30,000						
	<i>Dollars</i>						
<i>Cost of crafts sold:</i>							
Retail	\$10,000						
Wholesale	<u>8,500</u>						
Total	\$18,500						
	<i>Percent</i>						
<i>Percentage gross margin on crafts:</i>							
Retail	50						
Wholesale	<u>15</u>						
Total (Average)	38						
	<i>Dollars</i>						
<i>Other income:</i>							
Membership	\$150						
Other ¹	—						
Total Income	\$30,150						
Gross Income	\$11,650						

¹ Revenue from craft fairs other than sales, rentals, and other revenue not received directly from sales.

Table 2.—Projected operating expenses for craft cooperative

Item	Example	FIRST YEAR		SECOND YEAR		THIRD YEAR	
		Your projection	Actual	Your projection	Actual	Your projection	Actual
<i>Dollars</i>							
<i>Expenses</i>							
Salary & wages							
Manager	\$8,000						
Part-time help	1,000						
Fringe benefits ¹	900						
Property taxes	200						
Insurance	150						
Advertising	500						
Offices expenses	700						
Telephone	700						
Heat, water, electricity	1,000						
Supplies, (Office)	400						
Dues & subscriptions	50						
Depreciation of building and equipment	200						
Organization expense	100						
Legal	200						
Accounting & audit	500						
Licenses	150						
Interest ²	2,400						
Travel	1,000						
Promotion	850						
Rent	—						
Repairs	100						
Miscellaneous	50						
Total operating expense	19,150						
Non-operating expense	—						
Principal on loan ²	1,000						
Total	\$20,150						

¹ Social Security, Unemployment Compensation, and Insurance.² \$30,000 loan for 30 yrs at 8% interest (\$20,000 for building, \$10,000 for inventory) as an example.

Table 3.—Projected training, cooperative expense, and outside money needed

Item	Example	FIRST YEAR		SECOND YEAR		THIRD YEAR	
		Your projection	Actual	Your projection	Actual	Your projection	Actual
	<i>Dollars</i>						
<i>Training Costs:</i>							
Training coordinator	\$6,500						
Fringe benefits	650						
Consultants	6,000						
Per diem	3,000						
Travel for consultants	2,000						
Supplies	1,000						
Other travel	<u>2,000</u>						
Total training costs	\$21,150						
Total co-op expense (Table 2)	<u>20,150</u>						
Total expenses	41,300						
Gross from cooperative (Table 1)	<u>11,650</u>						
Balance needed from grants	29,650						
<i>Loan Needed:</i>							
Inventory capital	10,000						
Building fixtures	<u>20,000</u>						
Total	<u>\$30,000</u>						

Appendix C — Sample Bylaws

(For more details on bylaws see FCS Information 66, *Sample Legal Documents*, Farmer Cooperative Service, USDA)

_____ of _____
(Name) (County, State)
and surrounding counties

SECTION I — PURPOSE:

(A) The purpose for which this corporation is formed and the powers it may exercise are set forth in the articles of incorporation of the corporation.

(B) Additional purpose as set forth in the bylaws: The (Name) is incorporated as a non-profit, non-stock corporation¹ in the State of _____ (State), but this said corporation wishes to conduct itself as a non-agricultural cooperative. Therefore, the following bylaws will establish the operational method whereby this additional purpose will be accomplished.

SECTION II — MEMBERSHIP:

(A) A voting member is any person interested in furthering the human and economic development of _____ (Counties or State(s)) and surrounding counties, is an active resident producer of crafts and who has paid the co-op membership fee for the year in which the vote takes place. Each voting member shall

have one vote at the annual or called meetings.

(B) A supporting member is any person who is interested in furthering the human and economic development of _____ (Counties or State(s)) and surrounding _____ (Counties or State(s)) and who has paid the annual membership fee to be a non-voting member. A supporting member does not need to be a resident of _____ (County or State(s)) or a craft producer and does not have the voting rights of a resident craft producer.

(C) The amount of the membership fees shall be set by a majority vote of the Board of Directors and set forth in the minutes as to the amount.

(D) No person, on grounds of race, color, sex, or national origin, may be excluded from membership or participation in the co-op.

(E) If following a hearing, the Board of Directors, with a majority vote, finds that a member has ceased to be an eligible member, that is, for a period of 2 years, not marketed through or otherwise patronized the co-op, or has moved out of the area in which the co-op is operating, or has otherwise proved to be undesirable for the general welfare of all the co-op members, the Board of Directors may suspend the rights and interest of such a member in the co-op.

(F) Three co-op members shall have the power to call a special Board meeting, upon petition to the Board chairman. Ten percent (10%) of the membership shall have the power to call a membership meeting (other than the required annual meeting), upon petition to the Board chairman.

¹ If the association is formed with capital stock, see FCS Information 66, *Sample Legal Documents*, for more details.

SECTION III — BOARD OF DIRECTORS:

(A) The Board of Directors will be composed of nine-voting members of the co-op elected at the annual meeting.

(B) Terms of office held by the Board of Directors will be staggered in three terms as follows: Three (3) members being elected at the first annual meeting for a period of one year; three (3) members being elected at the first annual meeting for a period of 2 years; and three (3) members being elected at the first annual meeting for a period of 3 years. At future consecutive annual meetings, one-third of the Board will be elected each year for terms of 3 years each. No two Board members may be elected from the same community nor shall more than two-thirds of the Board be from any one county. No Board member may immediately succeed himself after serving two 3 year terms on the Board.

(C) Within 7 days after their election, the Board of Directors will hold a meeting and elect (by means of secret ballot) from among their members a chairman, vice-chairman, secretary and treasurer, who shall be the officers of the co-op and its Board. These officers will serve for one year or until the next annual meeting when a new election will be held (after the new directors are elected by the co-op members). The officers shall comprise the Executive Committee of the Board.

(D) Each director shall be a voting member in good standing of the cooperative. No person shall be eligible for membership on the Board of Directors if that person is in competition with, or affiliated with any enterprise that is in competition with, the (Name of cooperative) and/or if the majority of the Board of Directors of this corporation finds at any time that any board members is so engaged or affiliated.

(E) The Board of Directors will meet at least (monthly or quarterly) with additional special meetings as petitioned for by three (3) co-op members or as the chairman and/or the manager may call. Absence at three (3) consecutive meetings by any board member, after due notification after the second absence, without appropriate reason, by a majority vote of the Board of Directors is cause for automatic dismissal from the Board of Directors.

(F) The Board of Directors, at its discretion and for good reason by a two-thirds vote of its entire membership and after appropriate hearing may remove any officer and elect another from the membership of the Board. A new board member will then be elected by two-thirds vote of the existing Board from the general membership.

(G) No member of the Board of Directors shall be in a salaried position in the cooperative; but Board members may be reimbursed for direct expenses incurred as a Board member of the cooperative such as travel, meals, and lodging away from home. Board members may also be paid for craft training duties if they are so qualified. No relation to a Board member or a paid employee of the cooperative shall be hired as manager.

(H) The Board of Directors shall have the following additional responsibilities:

(1) To become familiar with the articles of incorporation and bylaws of the cooperative and conduct business in accordance with their provisions.

(2) To have arrangement with a local attorney, familiar with cooperative laws, for legal advice as needed.

(3) To hire (by a simple majority vote), dismiss the manager (by two-thirds vote of the Board after an appropriate hearing), to determine the salary

and outline the manager's duties and authority. To adopt policies for the guidance of the manager and make them a part of the minutes and make them available to members.

(4) To direct the manager to prepare before the close of each fiscal year an operating budget for the next fiscal year for the approval of the Board.

(5) To attend regular and special meetings of the Board.

(6) To understand the terms of all contracts into which the cooperative has entered by authority of the Board—leases, grant agreements, loan agreements, supply and other contracts. The Board of Directors are responsible to see that any loan made out in the name of the co-op is paid on due dates and to keep themselves informed as to the status of such loans and that grants are used for designated purposes.

(7) To establish and revise producer's pricing and markup schedules, and to determine patronage refund policy (according to Sections XII and XIII).

(8) To maintain an active interest in the amount and condition of inventories and make such inspections as conditions warrant. At least two (2) members of the board will assist in conducting an annual inventory which then will be made part of the annual audit.

(9) To plan with the manager to conduct annual meetings and provide the membership with reports based on the annual audit and reports on the general status of the co-op (as stated in Section VII, 4).

(10) To be alert to every opportunity for improving knowledge and understanding of cooperative business procedure and informing members of cooperative activities and practices.

(11) To abide by and support all decisions reached by a majority vote of the Board.

(12) Not to delegate any of the responsibilities which clearly belong to the Board.

(13) To remember that Boards of Directors

make policy decisions and should not assume responsibilities which are clearly the responsibility of the hired manager.

(14) Not to act independently on matters which should be decided by the entire Board.

(15) To elect the Standards/Pricing Committee and the Nominating Committee (for the annual meeting).

SECTION IV — BOARD OFFICERS DUTIES:

(A) *The chairman* shall preside over all meetings of the co-op and of the Board of Directors, call special meetings of the Board of Directors, perform all acts and duties usually performed by the executive or presiding officer and sign all membership cards and such other papers of the co-op as he or she may be authorized or directed to sign by the Board of Directors. The chairman shall also appoint all committees except the Standards/Pricing, and Nominating Committees; these committees shall be elected by the Board. The chairman shall perform other duties as prescribed by the Board.

(B) *The vice-chairman* shall perform the duties of the chairman in the absence or disability of the chairman. The vice-chairman will also act as chairman of the Standards/Pricing committee.

(C) *The secretary* shall keep a complete record of all the meetings of the co-op and of the directors and shall have general responsibility and supervision of the books and records of the co-op other than financial. He or she shall sign with the chairman all such papers pertaining to the co-op as he may be authorized or directed by the Board of Directors. He shall serve all notices required by law and these bylaws, shall make a full report of all matters and business pertaining to his office and present this report to the members at the annual meeting. He shall keep a complete membership list. He shall act as

secretary to the executive committee. He shall make all reports required by law and shall perform other such duties as may be required of him by the co-op or the Board of Directors. Upon the election of his successor, the secretary shall turn over all books and other property belonging to the co-op that he may have in his possession.

(D) *The treasurer* shall deposit or supervise deposit of all money belonging to the co-op which comes into the possession of the cooperative to the name of the co-op in a bank selected by the Board of Directors and shall make or supervise all disbursements from the account, by check, therefrom for ordinary and necessary expenses of the business in the manner and form prescribed by the Board of Directors. The treasurer shall be required to monitor the bookkeepers operating records and accounts in such a manner that the true and correct condition of the business may be ascertained therefrom at any time. He shall render annual, quarterly, and monthly statements in the form and manner prescribed by the Board of Directors. He shall carefully preserve all books, documents, correspondence, and records of whatever kind pertaining to the business which may come into his possession. Upon election of his successor, he shall deliver all these and all monies belonging to the cooperative to his successor.

(E) *Duties and Powers of the Executive Committee:* The Executive Committee shall be authorized to act in place of the Board between Board meetings, with its actions subject to review by the Board. The Executive Committee shall meet as frequently as the efficient operation of the co-op requires, or upon call by the chairman and/or manager.

SECTION V — NOTICE OF BOARD MEETINGS:

Written or printed notice of every regular and special

meeting of the Board shall be prepared and mailed to the last known post office address of each Board member not less than 5 days before such meetings. Such notice shall state the object or objects thereof and the time and place of the meeting. No business shall be transacted at special Board meetings other than referred to in the notice.

SECTION VI — MEMBER VOTING:

Each member shall be entitled to one vote. A member must be present to vote. The election of the Board of Directors at the annual meeting will take place by secret ballot. Other votes taken shall be by secret ballot if so prescribed by the membership. The annual or called membership meetings shall have final authority in all matters of business or policy. The record of motions or resolutions of the Board of Directors will be available for all members upon request, at any time, with the voting tally attached. (See Section III for Voting Procedures in the Board of Directors).

SECTION VII — QUORUM OF BOARD:

A simple majority (5) of the total members of the Board shall constitute a quorum for the transaction of business at any meeting of the total board. At executive committee (board officer) meetings, a simple majority (3) of the officers shall constitute a quorum for the transaction.

SECTION VIII — ANNUAL MEETING AND SPECIAL MEMBERSHIP MEETINGS:

There shall be an annual meeting each year, held during the month of (Month) Notices shall be sent out 15 days prior to the meetings. There may be other meetings of the membership as the officers and staff deem desirable; a meeting can be called upon petition of 10 percent

of the membership. A quorum at annual and special membership meetings shall consist of 10 percent of the total number of voting members.

SECTION IX — ORDER OF BUSINESS FOR THE ANNUAL MEETINGS:

The order of business at the annual meeting shall be:

1. Roll call, followed by proof of due notice of meeting.
2. Amendment of the Articles of Incorporation and amending and/or adopting the bylaws (if required).
3. Reading and disposal of minutes.
4. Annual reports of the Board and Committees.
5. Unfinished business.
6. Community reports.
7. New business.
8. Election of Directors to fill expiring terms.
9. Adjournment.

SECTION X — BONDING OF EMPLOYEES:

The manager, bookkeeper, and treasurer of the co-op will be bonded for the amount of (Dollar amount) to protect the co-op and the person in charge of the books for the co-op.

SECTION XI — VACANCIES:

Whenever a vacancy occurs on the board of Directors, other than from the expiration of a term of office and/or vacancies occurring through an action of the Board (Section III, F), the remaining directors shall appoint a member to fill the vacancy until the next annual meeting of the members.

SECTION XII — MARKETING AGREEMENT WITH PRODUCERS/MEMBERS

The co-op will sell items made by producers-members for a specific, agreed-upon advance price, which shall include a reasonable markup. Both a wholesale and a retail schedule shall be established. The producer's advance price and markup policy shall be established by the Standards/Pricing Committee, as follows:

1. Recommendation of advance price schedule by Standards/Pricing Committee
2. Approval by Board
3. Notification to members of the agreement

The negotiation of transactions according to his approved schedule shall constitute acceptance of the "Marketing Agreement" (See Appendix D for Sample Marketing Agreement) between the co-op and the producers. The schedule may be revised by the Board of Directors by majority vote with notification of revisions to the membership.

SECTION XIII — CO-OP CAPITALIZATION AND PATRONAGE REFUND POLICY:

Funds received by the co-op from markup on prices paid for crafts shall be used to defray operating expenses of the co-op, including carrying sufficient funds over a fiscal year to provide for the long-term capitalization needs.

A patronage refund may be paid to members based upon a percentage of the price paid to them for crafts, if in the opinion of the Board of Directors there are sufficient funds remaining from the markup monies after the co-op's capitalization needs have been met. Normally, this shall occur once annually. Notwithstanding any other provision of the bylaws; the Board, at its discretion, shall have the power to retire any capital credited to patrons' accounts on such terms and

conclusions as may be agreed upon by the parties in any instance in which the interests of the association and its patrons are deemed to be feasible.

Decision on paying the patronage refund, and the amount, shall be the responsibility of the Board of Directors.

SECTION XIV — FISCAL YEAR:

The fiscal year of the co-op will be from (Date) till the last day of (Month) each year.

SECTION XV — EDUCATION:

The Board and manager shall insure that a program of education, public relation, organization, and promotion is carried on continuously for the co-op, and that copies of articles of incorporation, bylaws, and annual audit reports are made available to each member.

SECTION XVI — AUDIT:

At least *once every year*, the Board shall require a complete audit of the bookkeeping system of the co-op and written report will be submitted to all the members at their annual meeting.

SECTION XVII — COMMITTEES:

The Board of Directors may, at its discretion, establish such committees as may be necessary to do the business effectively, in addition to the Standards/Pricing Committee and Nominating Committees. The co-op manager shall be an advisory member to the Standards/Pricing Committee. All other committee members must be voting co-op members.

SECTION XVIII — QUALIFICATIONS & DUTIES OF THE MANAGER:

(A) Qualifications of the Manager: The Board should give special consideration to the following items when selecting a manager:

1. Age and physical condition.
2. Business experience, integrity, and an understanding of the record keeping necessary in a cooperative.
3. Ability to work with people and to select and train employees.
4. Ability to plan ahead and coordinate operations.
5. A general understanding of cooperatives and their objectives.

(B) Duties & Relationships of Manager:

1. To hire and dismiss employees according to a personnel policy which he shall prepare for Board approval.
2. To work at improving the business.
3. To assist the Board in its functions.
4. To see that required training of producers and employees is accomplished.
5. To help conduct special and annual meetings.
6. To do long-range planning for the co-op.

SECTION XIX — DISSOLUTION

Upon dissolution, after all debts and liabilities of the association shall have been paid and all capital furnished through patronage shall have been retired without priority on a pro rata basis, the remaining property and assets of the association shall be distributed among members and former members in the proportion which the aggregate patronage of each member bears to the total patronage of all such members; unless otherwise provided by law.

SECTION XX — AMENDMENTS:

These bylaws may be amended by a two-thirds vote of the membership present and voting at any meeting of the co-op, provided a copy of the proposed change has been sent by first class mail to every member at his last known address at least fifteen (15) days prior to such meetings.

The undersigned, by all of the incorporators and members of the _____ association, do hereby assist to the foregoing bylaws and do adopt the same as

the bylaw of said association; and in witness whereof, we have hereunto subscribed our name, this _____ day of _____ 19__.

Appendix D — Sample Marketing Contract

(For more details on marketing contract see FCS Information 66, Sample Legal Documents, Farmer Cooperative Service, USDA)

I hereby agree to deliver to _____ (Name of craft cooperative) _____ the following items, to be marketed wholesale and/or retail at the discretion of the management:

<u>Quantity</u>	<u>Items</u>	<u>Price</u>

by _____ (date), unless terminated in writing by either party within thirty (30) days of specified date. The association agrees to market said crafts in the manner described herein.

As a member producer I agree to:

1. Be bound by the cooperative's articles of incorporation, bylaws, rules and regulations now or hereafter adopted.
2. Appoint the association my agent to sell all the crafts contracted for of marketable quality.
3. Deliver such crafts at such time and to such places as may be prescribed by proper authorities.
4. Notify the association of any lien on the products delivered.
5. Sell to the association only these products designed and contracted for by the association.

The association agrees to:

1. Accept craft producers as members when they have passed the standards committee.
2. Act as agent for the marketing of products of producer as herein provided.
3. Dispose of producer's crafts in a manner deemed to be most advantageous for its members.
4. Account to the producer in accordance with this contract for all amounts received from the sale of products.

Date_____

Producer's signature_____

Print name_____

Address_____

Social Security No._____ County_____

Accepted⁵⁰⁰ this____ day of _____, 19_____

(Name of craft cooperative)

By _____, Manager

Other Publications Available

More detailed information on particular steps in the cooperative-forming process is contained in other publications of the Farmer Cooperative Service. Single copies of the publications listed below may be obtained by writing Publications, Farmer Cooperative Service, U.S. Department of Agriculture, Washington, D.C. 20250.

Cooperatives in the American Private Enterprise System — Educational Aid 5, C.H. Kirkman, Jr.

Cooperatives—Distinctive Business Corporations—FCS Information 65, C.H. Kirkman, Jr.

Co-ops—A Tool to Improve and Market Crafts—Reprint 363 from News for Farmer Cooperatives.

Sample Legal Documents: Legal Phases of Farmer Cooperatives—FCS Information 66.

What Are Cooperatives—FCS Information 67, C.H. Kirkman, Jr.

Manager Holds an Important Key to Co-op Success—FCS Information 74, C.H. Kirkman, Jr.

Members Make Co-ops Go—FCS Information 72, C.H. Kirkman, Jr.

How to Start a Cooperative—Educational Circular 18, Irwin W. Rust

Improving Management of Farmer Cooperatives—General Report 120, Milton L. Manuel.